

Glossary

Absorption costing A costing method that includes all manufacturing costs—direct materials, direct labor, and both variable and fixed manufacturing overhead—in unit product costs. Absorption costing is also referred to as the full cost method; also called *full costing*. (p. 206)

Account Record within an accounting system in which increases and decreases are entered and stored in a specific asset, liability, equity, revenue, or expense. (p. C-3)

Account balance Difference between total debits and total credits (including the beginning balance) for an account. (p. C-3)

Accounting rate of return Rate used to evaluate the acceptability of an investment; equals the after-tax periodic income from a project divided by the average investment in the asset; also called *rate of return on average investment*. (p. 395)

Activity An event that causes the consumption of overhead resources in an entity. (p. 135)

Activity-based budgeting (ABB) Budget system based on expected activities. (p. 251)

Activity-based costing (ABC) A two-stage costing method in which overhead costs are assigned to products on the basis of the activities required. (p. 135)

Activity-based management A management approach that focuses on managing activities as a way of eliminating waste and reducing delays and defects. (p. 135)

Activity cost driver An allocation base in an activity-based costing system; a measure of what caused the costs in an activity cost pool. (p. 139)

Activity cost pool A grouping of costs that are accumulated and relate to a single activity measure in the activity-based costing system. (p. 135)

Activity driver (See *activity cost driver*.) (p. 139)

Activity overhead (pool) rate A predetermined overhead rate in activity-based costing; each activity cost pool has its own activity rate that is used to apply overhead to products and services. (p. 135)

Annual report Summary of a company's financial results for the year with its current financial condition and future plans; directed to external users of financial information. (p. A-1)

Avoidable expense Expense (or cost) that is relevant for decision making; expense that is not incurred if a department, product, or service is eliminated. (p. 371)

Balance column account Account with debit and credit columns for recording entries and another column for showing the balance of the account after each entry. (p. C-10)

Balanced scorecard A set of performance evaluation measures on four perspectives of a company's strategy: financial, customer, internal process, and learning. (pp. 323, 332)

Batch level activities Activities that are performed each time a batch of goods is handled or processed, regardless of how many units are in a batch; the

amount of resources used depends on the number of batches run rather than on the number of units in the batch. (p. 137)

Break-even point Output level at which sales equals fixed plus variable costs; where income equals zero. (p. 175)

Break-even time (BET) Time-based measurement used to evaluate the acceptability of an investment; equals the time expected to pass before the present value of the net cash flows from an investment equals its initial cost. (p. 402)

Budget Formal statement of future plans, usually expressed in monetary terms. (p. 238)

Budget report Report comparing actual results to planned objectives; sometimes used as a progress report. (p. 278)

Budgetary control Management use of budgets to monitor and control company operations. (p. 278)

Budgeted balance sheet Accounting report that presents predicted amounts of the company's assets, liabilities, and equity balances as of the end of the budget period. (p. 250)

Budgeted income statement Accounting report that presents predicted amounts of the company's revenues and expenses for the budget period. (p. 250)

Budgeting Process of planning future business actions and expressing them as formal plans. (p. 238)

Business segment Part of a company that can be separately identified by the products or services that it provides or by the geographic markets that it serves; also called *segment*. (p. 499)

Capital budgeting Process of analyzing alternative investments and deciding which assets to acquire or sell. (p. 392)

Capital expenditures budget Plan that lists dollar amounts to be both received from disposal of plant assets and spent to purchase plant assets. (p. 247)

Cash budget Plan that shows expected cash inflows and outflows during the budget period, including receipts from loans needed to maintain a minimum cash balance and repayments of such loans. (p. 248)

Cash flow on total assets Ratio of operating cash flows to average total assets; not sensitive to income recognition and measurement; partly reflects earnings quality. (p. 442)

Chart of accounts List of accounts used by a company; includes an identification number for each account. (p. C-6)

Clock card Source document used to record the number of hours an employee works and to determine the total labor cost for each pay period. (p. 54)

Common stock Corporation's basic ownership share; also generically called *capital stock*. (p. C-5)

Common-size financial statement Statement that expresses each amount as a percent of a base amount. In the balance sheet, total assets is usually the base and is expressed as 100%. In the income statement, net sales is usually the base. (p. 483)

Comparative financial statement Statement with data for two or more successive periods placed in side-by-side columns, often with changes shown in dollar amounts and percents. (p. 478)

Composite unit Generic unit consisting of a specific number of units of each product; unit comprised in proportion to the expected sales mix of its products. (p. 182)

Compound journal entry Journal entry that affects at least three accounts. (p. C-13)

Continuous budgeting Practice of preparing budgets for a selected number of future periods and revising those budgets as each period is completed. (p. 240)

Continuous improvement Concept requiring every manager and employee continually to look to improve operations. (p. 8)

Contribution format An income statement format that is geared to cost behavior in that costs are separated into variable and fixed categories rather than being separated according to the functions of production, sales, and administration. (p. 216)

Contribution margin income statement Income statement that separates variable and fixed costs; highlights the contribution margin, which is sales less variable expenses. (p. 209)

Contribution margin per unit Amount that the sale of one unit contributes toward recovering fixed costs and earning profit; defined as sales price per unit minus variable expense per unit. (p. 174)

Contribution margin ratio Product's contribution margin divided by its sale price. (p. 174)

Contribution margin report A managerial statement listing sales less variable expenses, which are the components of contribution margin. (p. 209)

Control Process of monitoring planning decisions and evaluating the organization's activities and employees. (p. 5)

Controllable costs Costs that a manager has the power to control or at least strongly influence. (pp. 11, 216, 334)

Controllable variance Combination of both overhead spending variances (variable and fixed) and the variable overhead efficiency variance. (p. 291)

Conversion costs Expenditures incurred in converting raw materials to finished goods; includes direct labor costs and overhead costs. (p. 16)

Cost accounting system Accounting system for manufacturing activities based on the perpetual inventory system. (p. 48)

Cost-based transfer pricing A method of assigning prices on transfers between divisions within a company based on the cost of the item being transferred. (p. 340)

Cost center Department that incurs costs but generates no revenues; common example is the accounting or legal department. (p. 323)

Cost driver Variable that causes an activity's cost to go up or down; a causal factor. (p. 139)

Cost object Product, process, department, or customer to which costs are assigned. (pp. 11 & 131)

Cost of capital The minimum desired rate of return on an investment. (p. 397)

Cost of goods manufactured Total manufacturing costs (direct materials, direct labor, and factory overhead) for the period plus beginning goods in process less ending goods in process; also called *net cost of goods manufactured* and *cost of goods completed*. (p. 99)

Cost variance Difference between the actual incurred cost and the standard cost. (p. 284)

Cost-volume-profit (CVP) analysis Planning method that includes predicting the volume of activity, the costs incurred, sales earned, and profits received. (p. 168)

Cost-volume-profit (CVP) chart Graphic representation of cost-volume-profit relations. (p. 176)

Credit Recorded on the right side; an entry that decreases asset and expense accounts, and increases liability, revenue, and most equity accounts; abbreviated Cr. (p. C-7)

Creditors Individuals or organizations entitled to receive payments. (p. C-4)

Curvilinear cost Cost that changes with volume but not at a constant rate. (p. 170)

Customer orientation Company position that its managers and employees be in tune with the changing wants and needs of consumers. (p. 7)

CVP chart Graphic representation of cost-volume-profit relations. (p. 170)

Cycle efficiency (CE) A measure of production efficiency, which is defined as value-added (process) time divided by total cycle time. (p. 2)

Cycle time (CT) A measure of the time to produce a product or service, which is the sum of process time, inspection time, move time, and wait time; also called *throughput time*. (p. 21)

Debit Recorded on the left side; an entry that increases asset and expense accounts, and decreases liability, revenue, and most equity accounts; abbreviated Dr. (p. C-7)

Debt ratio Ratio of total liabilities to total assets; used to reflect risk associated with a company's debts. (p. C-21)

Debtors Individuals or organizations that owe money. (pp. 49, C-3)

Degree of operating leverage (DOL) Ratio of contribution margin divided by pretax income; used to assess the effect on income of changes in sales. (p. 184)

Departmental accounting system Accounting system that provides information useful in evaluating the profitability or cost effectiveness of a department. (p. 322)

Departmental contribution to overhead Amount by which a department's revenues exceed its direct expenses. (p. 329)

Direct costs Costs incurred for the benefit of one specific cost object. (p. 10)

Direct expenses Expenses traced to a specific department (object) that are incurred for the sole benefit of that department. (p. 324)

Direct labor Efforts of employees who physically convert materials to finished product. (p. 16)

Direct labor costs Wages and salaries for direct labor that are separately and readily traced through the production process to finished goods. (p. 16)

Direct material Raw material that physically becomes part of the product and is clearly identified with specific products or batches of product. (p. 16)

Direct material costs Expenditures for direct material that are separately and readily traced through the production process to finished goods. (p. 16)

Direct method Presentation of net cash from operating activities for the statement of cash flows that lists major operating cash receipts less major operating cash payments. (p. 430)

Discount rate Expected rate of return on investments; also called *cost of capital*, *hurdle rate*, or *required rate of return*. (p. B-2)

Dividends Corporation's distributions of assets to its owners. (p. C-5)

Double-entry accounting Accounting system in which each transaction affects at least two accounts and has at least one debit and one credit. (p. C-7)

Efficiency Company's productivity in using its assets; usually measured relative to how much revenue a certain level of assets generates. (p. 477)

Efficiency variance Difference between the actual quantity of an input and the standard quantity of that input. (p. 291)

Equity ratio Portion of total assets provided by equity, computed as total equity divided by total assets. (p. 491)

Equivalent units of production (EUP) Number of units that would be completed if all effort during a period had been applied to units that were started and finished. (p. 93)

Estimated line of cost behavior Line drawn on a graph to visually fit the relation between cost and sales. (p. 172)

Ethics Codes of conduct by which actions are judged as right or wrong, fair or unfair, honest or dishonest. (p. 9)

Extraordinary gains or losses Gains or losses reported separately from continuing operations because they are both unusual and infrequent. (p. 499)

Facility level activities Activities that relate to overall production and cannot be traced to specific products; costs associated with these activities pertain to a plant's general manufacturing process. (p. 137)

Factory overhead Factory activities supporting the production process that are not direct material or direct labor; also called *overhead* and *manufacturing overhead*. (p. 16)

Factory overhead costs Expenditures for factory overhead that cannot be separately or readily traced to finished goods; also called *overhead costs*. (p. 16)

Favorable variance Difference in actual revenues or expenses from the budgeted amount that contributes to a higher income. (p. 279)

Financing activities Transactions with owners and creditors that include obtaining cash from issuing long-term debt, repaying amounts borrowed, and obtaining cash from or distributing cash to owners. (p. 426)

Financial reporting Process of communicating information relevant to investors, creditors, and others in making investment, credit, and business decisions. (p. 477)

Financial statement analysis Application of analytical tools to general-purpose financial statements and related data for making business decisions. (p. 476)

Finished goods inventory Account that controls the finished goods files, which acts as a subsidiary ledger (of the Inventory account) in which the costs of finished goods that are ready for sale are recorded. (pp. 14 & 50)

First-in, first-out (FIFO) Method to assign cost to inventory that assumes items are sold in the order acquired; earliest items purchased are the first sold. (p. 105)

Fixed budget Planning budget based on a single predicted amount of volume; unsuitable for evaluations if the actual volume differs from predicted volume. (p. 279)

Fixed budget performance report Report that compares actual revenues and costs with fixed budgeted amounts and identifies the differences as favorable or unfavorable variances. (p. 279)

Fixed cost Cost that does not change with changes in the volume of activity. (p. 10)

Fixed overhead cost deferred in inventory The portion of the fixed manufacturing overhead cost of a period that goes into inventory under the absorption costing method as a result of production exceeding sales. (p. 213)

Fixed overhead cost recognized from inventory The portion of the fixed manufacturing overhead cost of a prior period that becomes an expense of the current period under the absorption costing method as a result of sales exceeding production. (p. 213)

Flexible budget Budget prepared (using actual volume) once a period is complete that helps managers evaluate past performance; uses fixed and variable costs in determining total costs. (p. 280)

Flexible budget performance report Report that compares actual revenues and costs with their variable budgeted amounts based on actual sales volume (or other level of activity) and identifies the differences as variances. (p. 282)

Form 10-K (or 10-KSB) Annual report form filed with SEC by businesses (small businesses) with publicly-traded securities. (p. A-1)

General accounting system Accounting system for manufacturing activities based on the *periodic* inventory system. (p. 48)

General and administrative expense budget Plan that shows predicted operating expenses not included in the selling expenses budget. (p. 246)

General journal All-purpose journal for recording the debits and credits of transactions and events. (p. C-8)

General ledger (See *ledger*.) (p. C-3)

General partner Partner who assumes unlimited liability for the debts of the partnership; responsible for partnership management. (p. D-3)

General partnership Partnership in which all partners have mutual agency and unlimited liability for partnership debts. (p. D-3)

General-purpose financial statements Statements published periodically for use by a variety of interested parties; includes the income statement, balance sheet, statement of stockholders' equity (or statement of retained earnings), statement of cash flows, and notes to these statements. (p. 477)

Goods in process inventory Account in which costs are accumulated for products that are in the process of being produced but are not yet complete; also called *work in process inventory*. (pp. 14 & 50)

High-low method Procedure that yields an estimated line of cost behavior by graphically connecting costs associated with the highest and lowest sales volume. (p. 172)

Horizontal analysis Comparison of a company's financial condition and performance across time. (p. 478)

Hurdle rate Minimum acceptable rate of return (set by management) for an investment. (p. 332)

Incremental cost Additional cost incurred only if a company pursues a specific course of action. (p. 366)

Indirect costs Costs incurred for the benefit of more than one cost object. (p. 10)

Indirect expenses Expenses incurred for the joint benefit of more than one department (or cost object). (p. 324)

Indirect labor Efforts of production employees who do not work specifically on converting direct materials into finished products and who are not clearly identified with specific units or batches of product. (p. 16)

Indirect labor costs Labor costs that cannot be physically traced to production of a product or service; included as part of overhead. (p. 16)

Indirect material Material used to support the production process but not clearly identified with products or batches of product. (p. 13)

Indirect method Presentation that reports net income and then adjusts it by adding and subtracting items to yield net cash from operating activities on the statement of cash flows. (p. 430)

Infrequent gain or loss Gain or loss not expected to recur given the operating environment of the business. (p. 499)

Institute of management accountants (IMA) A professional association of management accountants. (p. 9)

Internal controls or **Internal control system** All policies and procedures used to protect assets, ensure reliable accounting, promote efficient operations, and urge adherence to company policies. (p. 9)

Internal rate of return (IRR) Rate used to evaluate the acceptability of an investment; equals the rate that yields a net present value of zero for an investment. (p. 399)

Investing activities Transactions that involve purchasing and selling of long-term assets, includes making and collecting notes receivable and investments in other than cash equivalents. (p. 426)

Investment center Center of which a manager is responsible for revenues, costs, and asset investments. (p. 323)

Investment center residual income The net income an investment center earns above a target return on average invested assets. (p. 331)

Investment center return on total assets Center net income divided by average total assets for the center. (p. 331)

Investment turnover The efficiency with which a company generates sales from its available assets; computed as sales divided by average invested assets. (p. 336)

Job Production of a customized product or service. (p. 48)

Job cost sheet Separate record maintained for each job. (p. 50)

Job lot Production of more than one unit of a customized product or service. (p. 49)

Job order cost accounting system Cost accounting system to determine the cost of producing each job or job lot. (pp. 50 & 89)

Job order production Production of special-order products; also called *customized production*. (p. 48)

Joint cost Cost incurred to produce or purchase two or more products at the same time. (p. 341)

Journal Record in which transactions are entered before they are posted to ledger accounts; also called *book of original entry*. (p. C-8)

Journalizing Process of recording transactions in a journal. (p. C-8)

Just-in-time (JIT) manufacturing Process of acquiring or producing inventory only when needed. (p. 8)

Lean business model Practice of eliminating waste while meeting customer needs and yielding positive company returns. (p. 8)

Least-squares regression Statistical method for deriving an estimated line of cost behavior that is more precise than the high-low method and the scatter diagram. (p. 173)

Ledger Record containing all accounts (with amounts) for a business; also called *general ledger*. (p. C-3)

Limited liability company Organization form that combines select features of a corporation and a limited partnership; provides limited liability to its members (owners), is free of business tax, and allows members to actively participate in management. (p. D-4)

Limited liability partnership Partnership in which a partner is not personally liable for malpractice or negligence unless that partner is responsible for providing the service that resulted in the claim. (p. D-3)

Limited partners Partners who have no personal liability for partnership debts beyond the amounts they invested in the partnership. (p. D-3)

Limited partnership Partnership that has two classes of partners, limited partners and general partners. (p. D-3)

Liquidation Process of going out of business; involves selling assets, paying liabilities, and distributing remainder to owners. (p. D-11)

Liquidity Availability of resources to meet short-term cash requirements. (p. 477)

Management by exception Management process to focus on significant variances and give less attention to areas where performance is close to the standard. (p. 294)

Managerial accounting Area of accounting mainly aimed at serving the decision-making needs of internal users; also called *management accounting*. (p. 4)

Manufacturing budget Plan that shows the predicted costs for direct materials, direct labor, and overhead to be incurred in manufacturing units in the production budget. (p. 257)

Manufacturing statement Report that summarizes the types and amounts of costs incurred in a company's production process for a period; also called *cost of goods manufacturing statement*. (p. 18)

Margin of safety Excess of expected sales over the level of break-even sales. (p. 180)

Marginal costing (See *variable costing*.) (p. 206)

Market-based transfers price A method of assigning prices on transfers between divisions within a company based on the market price of the item being transferred. (p. 340)

Market prospects Expectations (both good and bad) about a company's future performance as assessed by users and other interested parties. (p. 477)

Markup The difference between selling price and cost; often expressed as a percentage of cost. (p. 372)

Master budget Comprehensive business plan that includes specific plans for expected sales, product units to be produced, merchandise (or materials) to be purchased, expenses to be incurred, plant assets to be purchased, and amounts of cash to be borrowed or loans to be repaid, as well as a budgeted income statement and balance sheet. (p. 242)

Materials consumption report Document that summarizes the materials a department uses during a reporting period; replaces materials requisitions. (p. 90)

Materials ledger card Perpetual record updated each time units are purchased or issued for production use. (p. 51)

Materials requisition Source document production managers use to request materials for production; used to assign materials costs to specific jobs or overhead. (p. 52)

Merchandise purchases budget Plan that shows the units or costs of merchandise to be purchased by a merchandising company during the budget period. (p. 245)

Mixed cost Cost that behaves like a combination of fixed and variable costs. (p. 169)

Mutual agency Legal relationship among partners whereby each partner is an agent of the partnership and is able to bind the partnership to contracts within the scope of the partnership's business. (p. D-3)

Negotiated transfer price A method of determining prices on transfers between divisions within a company based on negotiations between division managers. (p. 341)

Net present value (NPV) Dollar estimate of an asset's value that is used to evaluate the acceptability of an investment; computed by discounting future cash flows from the investment at a satisfactory rate and then subtracting the initial cost of the investment. (p. 397)

Non-value-added time The portion of cycle time that is not directed at producing a product or service; equals the sum of inspection time, move time, and wait time. (p. 21)

Not controllable costs Costs that a manager does not have the power to control or strongly influence. (p. 11)

Operating activities Activities that involve the production or purchase of merchandise and the sale of goods or services to customers, including expenditures related to administering the business. (p. 425)

Operating leverage Extent, or relative size, of fixed costs in the total cost structure. (p. 184)

Opportunity cost Potential benefit lost by choosing a specific action from two or more alternatives. (p. 11)

Out-of-pocket cost Cost incurred or avoided as a result of management's decisions. (p. 11)

Overapplied overhead Amount by which the overhead applied to production in a period using the predetermined overhead rate exceeds the actual overhead incurred in a period. (p. 60)

Overhead cost variance Difference between the total overhead cost applied to products and the total overhead cost actually incurred. (p. 290)

Partner return on equity Partner net income divided by average partner equity for the period. (p. D-14)

Partnership Unincorporated association of two or more persons to pursue a business for profit as co-owners. (p. D-2)

Partnership contract Agreement among partners that sets terms under which the affairs of the partnership are conducted; also called *articles of partnership*. (p. D-2)

Partnership liquidation Dissolution of a partnership by (1) selling noncash assets and allocating any gain or loss according to partners' income-and-loss ratio, (2) paying liabilities, and (3) distributing any remaining cash according to partners' capital balances. (p. D-12)

Payback period (PBP) Time-based measurement used to evaluate the acceptability of an investment; equals the time expected to pass before an investment's net cash flows equal its initial cost. (p. 393)

Period costs Expenditures identified more with a time period than with finished products costs; includes selling and general administrative expenses. (p. 11)

Planning Process of setting goals and preparing to achieve them. (p. 4)

Posting Process of transferring journal entry information to the ledger; computerized systems automate this process. (p. C-8)

Posting reference (PR) column A column in journals in which individual ledger account numbers are entered when entries are posted to those ledger accounts. (p. C-10)

Predetermined overhead rate Rate established prior to the beginning of a period that relates estimated overhead to another variable, such as estimated direct labor, and is used to assign overhead cost to production. (p. 56)

Price variance Difference between actual and budgeted revenue or cost caused by the difference between the actual price per unit and the budgeted price per unit. (p. 282)

Prime costs Expenditures directly identified with the production of finished goods; include direct materials costs and direct labor costs. (p. 16)

Process cost accounting system System of assigning direct materials, direct labor, and overhead to specific processes; total costs associated with each process are then divided by the number of units passing through that process to determine the cost per equivalent unit. (p. 89)

Process cost summary Report of costs charged to a department, its equivalent units of production achieved, and the costs assigned to its output. (p. 98)

Process operations Processing of products in a continuous (sequential) flow of steps; also called *process operations* or *process production*. (p. 86)

Product costs Costs that are capitalized as inventory because they produce benefits expected to have future value; include direct materials, direct labor, and overhead. (p. 11)

Production budget Plan that shows the units to be produced each period. (p. 257)

Product level activities Activities that relate to specific products that must be carried out regardless of how many units are produced and sold or batches run. (p. 137)

Profit center Business unit that incurs costs and generates revenues. (p. 323)

Profit margin Ratio of a company's net income to its net sales; the percent of income in each dollar of revenue; also called *net profit margin*. (p. 336)

Profitability Company's ability to generate an adequate return on invested capital. (p. 477)

Profitability index A measure of the relation between the expected benefits of a project and its investment, computed as the present value of expected future cash flows from the investment divided by the cost of the investment; a higher value indicates a more desirable investment, and a value below 1 indicates an unacceptable project. (p. 399)

Quantity variance Difference between actual and budgeted revenue or cost caused by the difference between the actual number of units and the budgeted number of units. (p. 282)

Ratio analysis Determination of key relations between financial statement items as reflected in numerical measures. (p. 478)

Raw materials inventory Goods a company acquires to use in making products. (p. 13)

Relevant benefits Additional or incremental revenue generated by selecting a particular course of action over another. (p. 365)

Relevant range of operations Company's normal operating range; excludes extremely high and low volumes not likely to occur. (p. 177)

Responsibility accounting budget Report of expected costs and expenses under a manager's control. (p. 334)

Responsibility accounting performance report Responsibility report that compares actual costs and expenses for a department with budgeted amounts. (p. 334)

Responsibility accounting system System that provides information that management can use to evaluate the performance of a department's manager. (p. 322)

Rolling budget New set of budgets a firm adds for the next period (with revisions) to replace the ones that have lapsed. (p. 240)

S corporation Corporation that meets special tax qualifications so as to be treated like a partnership for income tax purposes. (p. D-4)

Safety stock Quantity of inventory or materials over the minimum needed to satisfy budgeted demand. (p. 245)

Sales budget Plan showing the units of goods to be sold or services to be provided; the starting point in the budgeting process for most departments. (p. 244)

Sales mix Ratio of sales volumes for the various products sold by a company. (p. 181)

Scatter diagram Graph used to display data about past cost behavior and sales as points on a diagram. (p. 171)

Selling expense budget Plan that lists the types and amounts of selling expenses expected in the budget period. (p. 246)

Solvency Company's long-run financial viability and its ability to cover long-term obligations. (p. 477)

Source documents Source of information for accounting entries that can be in either paper or electronic form; also called *business papers*. (p. C-2)

Spending variance Difference between the actual price of an item and its standard price. (p. 291)

Standard costs Costs that should be incurred under normal conditions to produce a product or component or to perform a service. (p. 283)

Statement of cash flows A financial statement that lists cash inflows (receipts) and cash outflows (payments) during a period; arranged by operating, investing, and financing. (p. 424)

Statement of partners' equity Financial statement that shows total capital balances at the beginning of the period, any additional investment by partners, the income or loss of the period, the partners' withdrawals, and the partners' ending capital balances; also called *statement of partners' capital*. (p. D-7)

Step-wise cost Cost that remains fixed over limited ranges of volumes but changes by a lump sum when volume changes occur outside these limited ranges. (p. 170)

Sunk cost Cost already incurred and cannot be avoided or changed. (p. 11)

T-account Tool used to show the effects of transactions and events on individual accounts. (p. C-7)

Target cost Maximum allowable cost for a product or service; defined as expected selling price less the desired profit. (p. 49)

Time ticket Source document used to report the time an employee spent working on a job or on overhead activities and then to determine the amount of direct labor to charge to the job or the amount of indirect labor to charge to overhead. (p. 54)

Total cost method Procedure to establish selling price, where price is set equal to the product's total cost plus a desired profit on that product. (p. 372)

Total quality management (TQM) Concept calling for all managers and employees at all stages of operations to strive toward higher standards and reduce number of defects. (p. 8)

Transfer price A price on a transfer of goods or services across divisions within a company. (p. 339)

Trial balance List of accounts and their balances at a point in time; total debit balances equal total credit balances. (p. C-17)

Unavoidable expense Expense (or cost) that is not relevant for business decisions; an expense that would continue even if a department, product, or service is eliminated. (p. 371)

Uncontrollable costs Costs that a manager does not have the power to determine or strongly influence. (pp. 216 & 334)

Underapplied overhead Amount by which overhead incurred in a period exceeds the overhead applied to that period's production using the predetermined overhead rate. (p. 59)

Unearned revenue Liability created when customers pay in advance for products or services; earned when the products or services are later delivered. (p. C-4)

Unfavorable variance Difference in revenues or costs, when the actual amount is compared to the budgeted amount, that contributes to a lower income. (p. 279)

Unit level activities Activities that arise as a result of the total volume of goods and services that are produced, and that are performed each time a unit is produced. (p. 137)

Unlimited liability Legal relationship among general partners that makes each of them responsible for partnership debts if the other partners are unable to pay their shares. (p. D-3)

Unusual gain or loss Gain or loss that is abnormal or unrelated to the company's ordinary activities and environment. (p. 499)

Value-added time The portion of cycle time that is directed at producing a product or service; equals process time. (p. 21)

Value chain Sequential activities that add value to an entity's products or services; includes design, production, marketing, distribution, and service. (p. 18)

Variable cost Cost that changes in proportion to changes in the activity output volume. (p. 10)

Variance analysis Process of examining differences between actual and budgeted revenues or costs and describing them in terms of price and quantity differences. (p. 282)

Vertical analysis Evaluation of each financial statement item or group of items in terms of a specific base amount. (p. 478)

Volume variance Difference between two dollar amounts of fixed overhead cost; one amount is the total budgeted overhead cost, and the other is the overhead cost allocated to products using the predetermined fixed overhead rate. (p. 291)

Weighted average contribution margin For multi-product firms, the sum of each product's unit contribution margin multiplied by that product's sales mix percentage. (p. 182)

Weighted average method Method to assign inventory cost to sales; the cost of available-for-sale units is divided by the number of units available to determine per unit cost prior to each sale that is then multiplied by the units sold to yield the cost of that sale. (p. 96)

Working capital Current assets minus current liabilities at a point in time. (p. 487)